

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

DIABLO TECHNOLOGIES, INC.,

Plaintiff,

VS.

NETLIST, INC.,

Defendant.

And related action

SMART MODULAR TECHNOLOGIES, INC.,

Plaintiff,

VS.

NETLIST, INC.,

Defendant.

Both Diablo Technologies, Inc. (“Diablo”), and Smart Modular Technologies, Inc. (“Smart Modular”), have filed declaratory judgment actions in this Court seeking a declaration that U.S. Patent Nos. 8,001,434; 8,301,833; 8,359,501; 8,516,185; and 8,516,187 (the ‘434, ‘833, ‘501, ‘185 and ‘187 patents, or, collectively, “the Five Netlist Patents”) are invalid and not infringed by the accused product, a solid-state drive called ULLtraDIMM, developed by Diablo and Smart Storage Systems, Inc. (“Smart Storage”).

Pending before the Court are two Motions brought by Defendant Netlist, Inc. (“Netlist”) to Dismiss, or In the Alternative, to Transfer Complaint To Central District of California in the related cases (Dkt. No. 13 in *Diablo Technologies, Inc. v. Netlist, Inc.*, 13-cv-3901-YGR, and Dkt. No. 13 in *Smart Modular Technologies, Inc. v. Netlist, Inc.*, 13-cv-3916-YGR). Netlist brings the instant motions pursuant to Rules 12(b)(3), 12(b)(7), and 19 of the Federal Rules of Civil Procedure for

1 orders dismissing the declaratory judgment complaints filed by Diablo and Smart Modular or, in
2 the alternative, transferring these actions to the United States District Court for the Central District
3 of California. Diablo and Smart Modular oppose the motions.

4 Having carefully considered the papers submitted, the admissible evidence,¹ and the
5 pleadings in this action, and for the reasons set forth below, the Court hereby **DENIES** Netlist's
6 Motions to Dismiss or Transfer.²

7 **I. FACTUAL AND PROCEDURAL BACKGROUND**

8 On September 10, 2012, Smart Modular filed suit against Netlist in the Eastern District of
9 California alleging that certain Netlist products, including HyperCloud, infringe Smart Modular's
10 '295 patent. (Cunningham Decl., Ex. D.) At present, the Eastern District litigation is stayed (on
11 Netlist's motion) pending completion of an *inter partes* reexamination of the '295 Patent by the
12 Patent Office. (See Cunningham Decl., Exh. F.) Netlist's answer and counterclaims asserted fraud,
13 unfair competition and antitrust violations.

14 On July 1, 2013, Netlist filed a complaint against Smart Modular in the Central District of
15 California asserting claims for antitrust violations, unfair competition and fraud. (*Netlist, Inc. v.*
16 *Smart Modular Technologies, Inc.*, 13-cv-996-DOC-JPR, "the Original Central District
17 Complaint".) While the Original Central District Complaint mentioned the '295 patent, it did not
18 bring any claims related to patent infringement or validity, did not name Diablo, and did not
19 reference the accused ULLtraDIMM product.

20 On August 8, 2013, Diablo and SMART Storage announced the launch of their upcoming
21 ULLtraDIMM solid-state drive product. (See McMullen Decl. ¶ 4; Motion to Dismiss, Exh. B at ¶
22

23
24 ¹ Smart Modular seeks judicial notice of all pleadings listed on the docket attached as
25 Exhibit A to the Declaration of Blake Cunningham (Dkt. 22, 13-cv-3916-YGR), as well as
26 particular pleadings attached to that declaration, and a letter from Netlist to Smart Modular
referenced in the motion. The Court **GRANTS** the request for judicial notice **IN PART**, and takes
judicial notice of the letter, the attached pleadings, and the docket only.

27 ² Pursuant to Federal Rule of Civil Procedure 78(b) and Civil Local Rule 7-1(b), the Court
28 finds this motion appropriate for decision without oral argument. Accordingly, the Court **VACATES**
the hearings set for **October 15, 2013**.

1 18.) The announcement did not give technical details about the product but stated that the
2 ULLtraDIMM had just begun “sampling with select customers.” *Id.*

3 Thereafter, Netlist drafted a First Amended Complaint (“Amended Central District
4 Complaint”) to add claims to the Original Central District Complaint, alleging that the
5 ULLtraDIMM product infringed one or more claims of the Five Netlist Patents, and asserting new
6 claims for patent infringement, trade secret misappropriation and related claims against existing-
7 defendant Smart Modular, as well as new defendants Smart Storage, Smart Worldwide Holdings,
8 Inc. (“Smart Worldwide”) and Diablo. Between 5:15 pm and 5:30 pm on August 22, 2013, Netlist
9 faxed a letter to each of the four defendants, including Diablo and Smart Modular, to inform them
10 that Netlist intended to add claims concerning the Five Netlist Patents by way of an amendment to
11 the Original Central District Complaint to be filed on the next business day, August 23, 2013.

12 Before that Amended Complaint was filed, however, on August 23, 2013, Diablo filed its
13 declaratory relief action herein seeking a declaration of invalidity and non-infringement as to each
14 of the Five Netlist Patents. The declaratory relief action did not include any claims related to the
15 ‘295 Patent, or the anti-trust and unfair competition allegations in the Original Central District
16 Complaint.

17 Less than two hours later, also on August 23, 2013, Netlist filed its amended complaint in
18 the Central District. The Amended Central District Complaint alleged infringement of the Five
19 Netlist Patents against Diablo, Smart Modular, Smart Worldwide, and Smart Storage, as well as
20 adding claims against Diablo for Lanham Act violations, Misappropriation of Trade Secrets,
21 Breach of Contract, violation of California Business & Professions Code section 17200 *et seq.*, and
22 correction of inventorship related to Diablo’s ’917 patent.

23 Also on August 23, 2013, about 30 minutes after Netlist filed its Amended Central District
24 Complaint, Smart Modular also filed its declaratory judgment action in this Court, seeking a
25 declaration of non-infringement and invalidity concerning the same Five Netlist Patents.

26 **II. DISCUSSION**

27 While Netlist brings its motions ostensibly on the grounds of improper venue under Rule
28 12(b)(3) and failure to join a party under Rules 12(b)(7) and 19, its arguments for dismissal or

1 transfer of venue are not directed to either standard.³ Instead, Netlist's arguments are that: (1)
2 Netlist's complaint in the Central District takes precedence under a first-to-file analysis, making the
3 declaratory judgment actions here duplicative; (2) the declaratory relief actions constitute
4 disfavored "anticipatory suits;" and (3) the speed with which the declaratory relief actions were
5 filed indicates that Diablo and Smart Modular could not have conducted a reasonable inquiry
6 before filing their complaints. Each of these arguments fails.

7 **A. First-to-File**

8 Netlist argues that the Court should grant the motion because Netlist already has an action
9 pending in the Central District, in which Netlist has asserted the same five Netlist patents that are
10 asserted in the Diablo and the Smart Modular declaratory relief complaints and the action pending
11 in the Central District is the only one that contains all of the relevant parties and legal claims
12 necessary for a complete resolution of the dispute. Netlist argues that it established venue for its
13 claims against Smart Modular by filing the Original Central District Complaint in July 2013, and
14 then announced to Diablo that it would be adding Diablo as a defendant and adding patent
15 infringement claims by way of its notice letter dated August 22, 2013.

16 A federal district court has discretion to dismiss, stay, or transfer a case to another district
17 court under the first-to-file rule. *Pacesetter Sys., Inc. v. Medtronic, Inc.*, 678 F.2d 93, 94–95 (9th
18 Cir. 1982); *Alltrade, Inc. v. Uniweld Prods. Inc.*, 946 F.2d 622, 628 (9th Cir. 1991) ("The most
19 basic aspect of the first-to-file rule is that it is discretionary."). The rule is primarily meant to
20 alleviate the burden placed on the federal judiciary by duplicative litigation and to prevent the
21
22

23 ³ Failure to file in a proper venue may be raised by motion pursuant to Rule 12(b)(3) of the
24 Federal Rules of Civil Procedure. Pursuant to 28 U.S.C. § 1406(a), if the court determines that
25 venue is improper, the court must either dismiss the action or, if it is in the interests of justice,
26 transfer the case to a district or division in which it could have been brought, and is within the
27 sound discretion of the district court. *See King v. Russell*, 963 F.2d 1301, 1304 (9th Cir.1992). A
28 motion to dismiss under Rule 12(b)(7) and 19 for failure to join a necessary party is granted if an
absent party is "necessary" to the suit and that party cannot be joined such that "in 'equity and good
conscience' the suit should be dismissed." *Shermoen v. United States*, 982 F.2d 1312, 1317 (9th
Cir. 1992) (citing *Makah Indian Tribe v. Verity*, 910 F.2d 555, 558 (9th Cir.1990). "The moving
party has the burden of persuasion in arguing for dismissal." *Id.*

1 possibility of conflicting judgments. *Church of Scientology of Cal. v. U.S. Dep't of Army*, 611 F.2d
2 738, 750 (9th Cir. 1979) (citations omitted).

3 In patent cases, the “general rule favors the forum of the first-filed action, whether or not it
4 is a declaratory action.” *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 937 (Fed. Cir. 1993)
5 *abrogated on other grounds by Wilton v. Seven Falls Co.*, 515 U.S. 277 (1995). “Exceptions,
6 however, are not rare, and are made when justice or expediency requires, as in any issue of choice
7 of forum.” *Id.*; *see also Cisco Sys., Inc. v. TiVo, Inc.*, 2012 WL 3279532, at *3 (N.D. Cal. Aug. 10,
8 2012) (in patent actions, first-to-file rule is not rigid, inflexible, or mechanically applied, but rather
9 employed “with a view to the dictates of sound judicial administration”). In determining which
10 action is considered the first-filed, courts generally examine the following factors: (1) chronology
11 of the actions; (2) similarity of the parties; and (3) similarity of the issues. *Schwartz v. Frito-Lay N.*
12 *Am.*, No. C-12-02740 EDL, 2012 WL 8147135, at *2 (N.D. Cal. Sept. 12, 2012). The analysis may
13 also take into consideration the “convenience factors” set forth in the transfer statute, 28 U.S.C. §
14 1404(a), including, “the convenience and availability of witnesses, absence of jurisdiction over all
15 necessary or desirable parties, possibility of consolidation with related litigation, or considerations
16 relating to the interest of justice.” *Micron Tech., Inc. v. Mosaid Techs., Inc.*, 518 F.3d 897, 902–05
17 (Fed.Cir.2008); *Cisco Sys., Inc. v. TiVo, Inc.*, C 12-02766 RS, 2012 WL 3279532 (N.D. Cal. Aug.
18 10, 2012).

19 Here, the factors to be considered in a first-to-file analysis do not favor dismissal or transfer
20 of the Diablo or Smart Modular complaints. While Netlist seems to argue that its Original Central
21 District Complaint was the first-filed action, it is the Diablo declaratory relief complaint, filed in
22 this District, that was the first to be filed concerning the Five Netlist Patents at issue here. Netlist’s
23 Original Central District Complaint did not include any allegations regarding the Five Netlist
24 Patents, or any patent infringement-related claims at all. Nor was Diablo a party to Netlist’s
25 Original Central District Complaint. Thus, Netlist’s Original Central District Complaint cannot be
26 considered the “first” complaint with respect to the issues and parties of concern here.

27 Netlist further argues that its Amended Central District Complaint was filed less than two
28 hours after the Diablo declaratory relief complaint, and that such a small chronological difference

1 should mean that the timing of the filing is not dispositive as to the appropriate venue. Netlist cites
2 to a number of cases supporting that position. *See Nordson Corp. v. Speedline Techs., Inc.*, 2000
3 U.S. Dist. LEXIS 15240, at *7 (N.D. Cal. Oct. 10, 2000) (first-to-file rule “not dispositive” where
4 parties filed suits within three hours of each other); *Aurora Corp. of America v. Fellows, Inc.*, 2008
5 WL 709198, at *1 (C.D. Cal. Feb. 27, 2008) (where parties filed nearly simultaneous lawsuits,
6 application of first-to-file rule “would invoke none of the merits of the first-filed rule, while
7 promoting the sort of race to the courthouse that is the worst feature of the rule”); *Topics*
8 *Entertainment, Inc. v. Rosetta Stone Ltd.*, 2010 WL 55900, at *4 (W.D. Wash. Jan. 4, 2010) (“[T]he
9 fact that the suits were filed only two hours apart supports the Court’s decision to depart from the
10 first-to-file rule”); *Ontel Prods., Inc. v. Project Strategies Corp.*, 899 F. Supp. 1144, 1153
11 (S.D.N.Y. Sept. 14, 1995) (first-to-file rule is “usually disregarded where the competing suits were
12 filed merely days apart” and does not apply where the lawsuits were filed on the same day).
13 However, the Federal Circuit has held that the “rule favoring the right of the first litigant to choose
14 the forum, absent countervailing interests of justice or convenience, is supported by [reasons] just
15 as valid when applied to the situation where one suit precedes the other by a day as they are in a
16 case where a year intervenes between the suits.” *Genentech*, 998 F.2d at 938 (internal citations and
17 quotation omitted); *see also Intuitive Surgical, Inc. v. California Inst. of Tech.*, C07-0063-CW,
18 2007 WL 1150787 (N.D. Cal. Apr. 18, 2007) (first-to-file rule should be followed even if filings
19 mere hours apart).

20 In addition, Netlist argues that the Amended Central District Complaint is the only lawsuit
21 that “contains all of the relevant parties and claims.” Netlist’s argument is unconvincing. Netlist
22 never explains why its claims for Lanham Act violations, misappropriation of trade secrets, breach
23 of contract, unfair competition, or correction of inventorship regarding Diablo’s ’917 patent would
24 be relevant to the infringement claims on the Five Netlist Patents.

25 B. Anticipatory Suit

26 Netlist argues that the Court should dismiss Diablo’s declaratory judgment complaint
27 because it is nothing more than Diablo’s attempt to beat the filing of Netlist’s Amended Complaint
28 in the Central District by filing an anticipatory suit. The Ninth Circuit has recognized that an

1 exception to application of the first-to-file rule would include circumstances such as bad faith and
 2 forum shopping, both of which may be indicated by the filing of an anticipatory suit. *Alltrade, Inc.*
 3 v. *Uniweld Prods., Inc.*, 946 F.2d 622, 628 (9th Cir. 1991).

4 It is true that a district court is not required to exercise declaratory judgment jurisdiction,
 5 but has “unique and substantial discretion” to decline that jurisdiction when there are well-founded
 6 reasons for doing so. *Wilton v Seven Falls Co.*, 515 U.S. 277, 286 (1995); *see also Electronics for*
 7 *Imaging, Inc. v. Coyle*, 394 F.3d 1341, 1345 (Fed. Cir. 2005) (court has discretion to decline
 8 declaratory relief jurisdiction where circumstances would make it “unjust or inefficient” and filing
 9 appears intended to preempt another’s infringement suit); *Genentech*, 998 F.2d at 937 (“When there
 10 is an actual controversy and a declaratory judgment would settle the legal relations in dispute and
 11 afford relief from uncertainty or insecurity, in the usual circumstance the declaratory judgment is
 12 not subject to dismissal.”). The filing of a declaratory relief action simply to preempt another’s
 13 infringement suit favors dismissal. *Electronics for Imaging*, 394 F.3d at 1345. However, the
 14 Federal Circuit has held that the anticipatory nature of a declaratory relief action is simply one
 15 factor to be considered in the venue analysis, and not sufficient on its own to warrant dismissal or
 16 transfer. *Electronics for Imaging*, 394 F.3d at 1347-48; *see also Teledyne Technologies Inc. v.*
 17 *Harris Corp.*, CV 11-00139 DDP AJWX, 2011 WL 2605995 (C.D. Cal. July 1, 2011) *dismissed*,
 18 461 F. App’x 921 (Fed. Cir. 2011) (“the anticipatory nature of [the] suit is *but one factor* in the
 19 dismissal analysis[; c]onsiderations of the convenience and availability of witnesses, the location of
 20 documents, judicial expediency and efficiency” all weigh into the analysis as well).

21 Here, Netlist’s motions do not discuss other factors, such as location of evidence and
 22 witnesses or considerations of judicial efficiency, which would favor venue in the Central District
 23 over this Court. It is only on reply that Netlist cites to 28 U.S.C. § 1404,⁴ and offers, for the first

24 ⁴ Though the motions here were not made under 28 U.S.C. § 1404, the Court notes that the
 25 purpose of 28 U.S.C. § 1404(a) is to “prevent the waste of time, energy and money and to protect
 26 litigants, witnesses and the public against unnecessary inconvenience and expense.” *Van Dusen v.*
Barrack, 376 U.S. 612, 616, 84 S.Ct. 805, 11 L.Ed.2d 945 (1964) (internal quotation omitted). To
 27 support a motion for transfer under section 1404, it is the moving party’s burden to establish “that
 28 the transferee district is one where the action might have been brought and that the transfer will
 serve the convenience of the parties and witnesses and will promote the interest of justice.”
Goodyear Tire & Rubber Co. v. McDonnell Douglas Corp., 820 F.Supp. 503, 506 (C.D.Cal.1992).

1 time, evidence that Netlist is based in the Central District, and that Smart Modular's "Memory
2 Engineering" facility is located in the Central District. Meanwhile, Smart Modular has submitted
3 evidence that its principal place of business is in the Northern District, and Diablo has submitted
4 evidence that it has four employees and contractors in the Northern District, but only one in the
5 Central District. In addition, Smart Modular points out that the accused ULLtraDIMM product is
6 the result of a partnership between Diablo and Smart *Storage*, not Smart Modular, and that Smart
7 Storage was recently acquired by SanDisk Corporation, which has its principal place of business in
8 the Northern District.

9 As the Federal Circuit has indicated, the purpose of the Declaratory Judgment Act was to
10 allow parties threatened with an infringement action to seek a judicial determination of the
11 controversy immediately, without delay and uncertainty. *Electronics for Imaging*, 394 F.3d at
12 1346. To ignore the first-to-file rule when the first-filed case is a declaratory relief action, as
13 Netlist argues, would allow the patent owner to control venue in all instances, a result inconsistent
14 with that purpose.

15 The actions on the Five Netlist Patents were filed on the same day and none of them has
16 progressed significantly more than the others or issued substantive rulings such that judicial
17 economy would favor dismissal of the actions here or transfer to the Central District. Even
18 assuming the Court should consider new facts submitted by Netlist for the first time on reply, the
19 evidence regarding convenience of witnesses and access to evidence does not favor the Central
20 District of California over the Northern District of California. In short, Netlist has failed to
21 establish that the convenience and interest of justice factors favor dismissal or transfer to the
22 Central District.

23 **C. Failure to Conduct A Reasonable Inquiry**

24 Netlist further argues that the Court should dismiss or transfer the declaratory judgment
25 complaints because Diablo and Smart Modular could not have performed a reasonable and
26 competent inquiry into the factual or legal bases for their complaints.

27 First, Netlist's argument appears to be a motion for dismissal under FRCP Rule 11 in
28 disguise. Such a motion would be improper, as there are specific procedural requirements that must

1 be met in order to dismiss under Rule 11. *See* Fed. R. Civ. P. 11(c)(2) (requiring Rule 11 be
2 asserted in a separate motion, served but not filed 21 days in advance with an opportunity to correct
3 or withdraw the pleading). Further, Diablo and Smart Modular offer evidence to counter Netlist's
4 inference that they could not have performed an adequate inquiry prior to filing.

5 At best, Netlist's reasonable inquiry argument can be read as contending that the filing of
6 the declaratory relief action was in bad faith. Diablo and Smart Modular have submitted evidence
7 as to why the Northern District is a convenient venue.⁵ Netlist's argument does not change the
8 Court's determination that Netlist has not established that the relevant factors favor dismissal or
9 transfer to the Central District.

10 **III. CONCLUSION**

11 For the foregoing reasons, the Court finds that the Motions to Dismiss or to Transfer are
12 **DENIED.**

13 This Order terminates Dkt. No. 13 in *Diablo Technologies, Inc. v. Netlist, Inc.*, 13-cv-3901-
14 YGR, and Dkt. No. 13 in *Smart Modular Technologies, Inc. v. Netlist, Inc.*, 13-cv-3916-YGR.

15 **IT IS SO ORDERED.**

16 Date: October 10, 2013



17 YVONNE GONZALEZ ROGERS
18 UNITED STATES DISTRICT COURT JUDGE

25 ⁵ The Court again notes that, although the motions here are styled as motions to dismiss for
improper venue and failure to join, no arguments or evidence were submitted by Netlist to
demonstrate why the Northern District would not be a proper venue for the declaratory relief
actions under any applicable venue statute, or what necessary parties were not joined here. For that
reason, the Court declines to address Smart Modular's argument that joinder would be improper
under the America Invents Act, Pub. L. No. 112-29, sec. 19(d), § 299, 125 Stat 284, 332-33 (2011)
(codified at 35 U.S.C. § 299).